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ABSTRACT

A study explored questions on changing skill requirements of small firms in the services sector that are internationalizing their activities. These seven European Union (EU) member states were involved: Greece, Spain, Italy, Ireland, Austria, the Netherlands, and the United Kingdom. The services sector accounted for a significant part of the EU economy. Its share of gross domestic product is estimated at more than 70 percent and services account for more than two-thirds of total employment in most member states. Investigations of factors inducing small firms to start operating abroad suggested the decision was triggered by the consideration that the firms seek growth but cannot achieve it in their home markets and expansion opportunities are identified in other markets. The most important "keys to success" of internationalized small firms were finding the right agents/distributors; choosing the right export market(s); being committed, confident, and persistent; using fast communications; and having foreign language abilities. Firms needed to develop such competency as foreign language, negotiation, and communication skills. Small firm owners preferred practical results-oriented mechanisms--on-the-job training and exchange of experience--as alternative mechanisms through which internationalization-related competency could be developed. Results of individual countries were synthesized. Recommendations regarding crucial shortages of specific types of skills were addressed to public and private providers of support to small firms, national governments, and the European Commission. (YLB)

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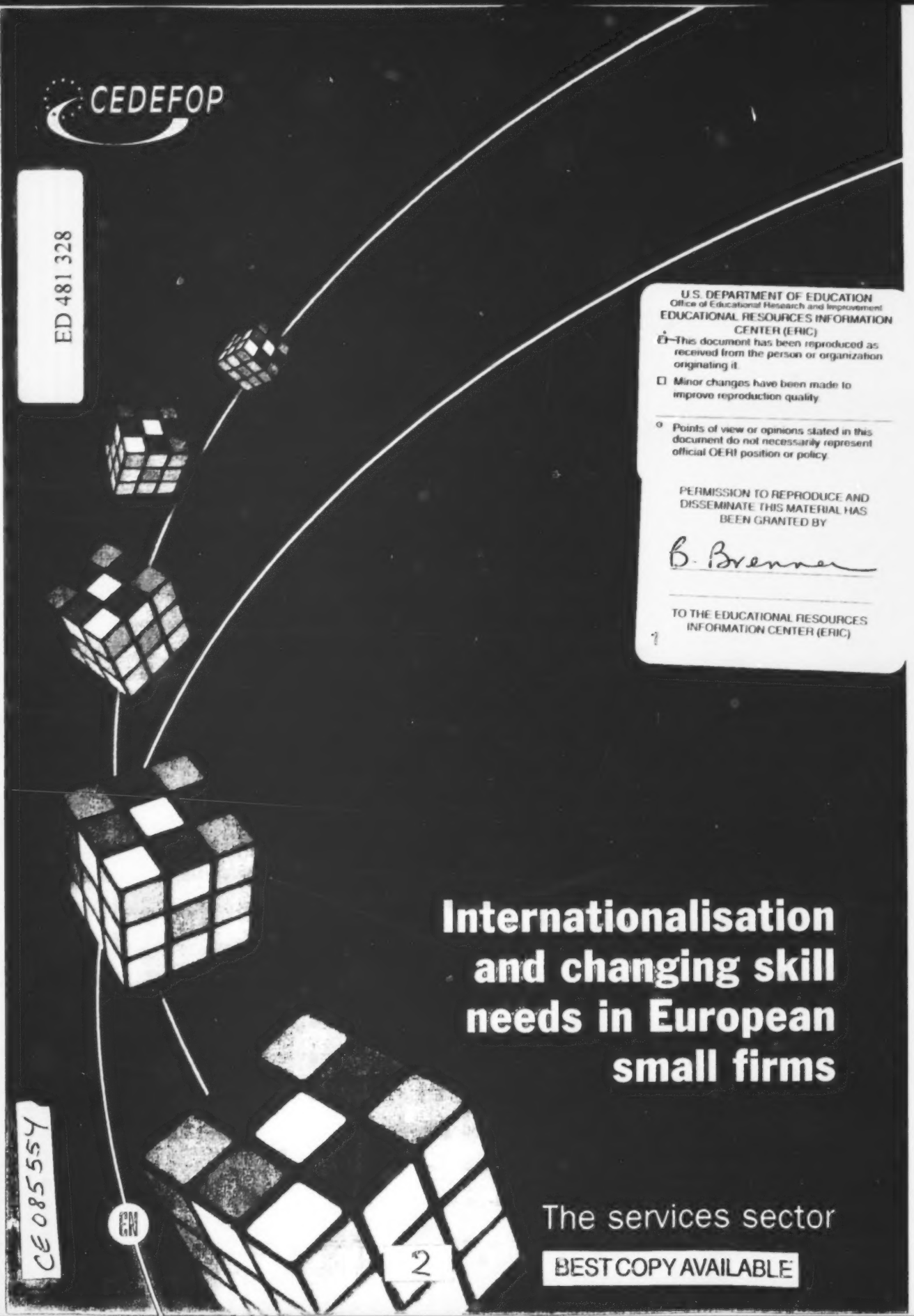

Internationalisation and changing skill needs in European small firms

The services sector

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Internationalisation and changing skill needs in European small firms

The services sector

Joseph Hassid

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It can be accessed through the Europa server (http://europa.eu.int).

Cataloguing data can be found at the end of this publication.

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Foreword

This report presents and discusses the findings of surveys carried out in seven EU countries among small firms in the services sector.

These surveys constitute a follow-up to a previous study, 'Internationalisation and changing skill needs in European small firms' (Cedefop, 2002), which focused exclusively on small firms in the manufacturing sector.

We decided to investigate the skill needs of European small firms in the services sector because the European Union has one of the most liberalised and open markets for services in trade and investment and is the world's leading exporter and investor in services, accounting for over a quarter of the world's services exports.

The sector also accounts for a significant part of the European Union economy and has an important role to play in the Union's economic future and welfare of its citizens. The sector's share in the Union's GDP is estimated at more than 70 % and it employs more people than other economic sectors.

Services is the only sector of the European economy that has generated jobs during the past two decades, whereas industry and agriculture have seen a reduction in employment.

Both Cedefop studies provide answers to crucial questions on the competences small firms need for efficient internationalisation and the extent to which such firms — from both the manufacturing and the services sectors — have them or could acquire them through initiatives to improve the present situation.

The services sector study covered the same seven countries as the manufacturing one, namely: Austria, Greece, Ireland, Italy, the Netherlands, Spain and the UK and the methodology employed was similar. National reports, based on harmonised specifications, were drawn up under the scientific coordination of Professor Joseph Hassid and Cedefop.

The international group of experts responsible for conducting the country surveys and preparing the national reports, was also largely the same. It consisted of the following:

- Markus Wachter, of the Austrian Tourism Consultants in Vienna, Austria;
- Chara Messini, of the University of Piraeus in Piraeus, Greece;
- Tom Martin and Candy Murphy, of Goodbody Economic Consultants in Dublin, Ireland;
- Enzo Pontarollo and Laura Solimene, of the Universita Cattolica del Sacro Cuore in Milan, Italy;

- Eric Poutsma, of the Nijmegen Business School in Nijmegen, the Netherlands;
- Alfonso Echanove, of the Instituto de Marketing del Pais Vasco in Bilbao, Spain; and
- Keith Randle and Nigel Culkin, of the University of Hertfordshire in London, United Kingdom.

The research team mentioned above worked under the scientific coordination of Professor Joseph Hassid of the University of Piraeus in Greece.

The service sector study argues there are certain characteristics of the services sector which distinguish it from manufacturing and affect its firms' internationalisation and human resources strategies. A typical example is the fact that more emphasis is put on increased responsibilities for certain key employees handling client relations. This obviously implies a greater need for developing personal communication skills as a competitiveness determining factor.

Such characteristics and associated predictions for skill needs are defined in Section 3 of the report and are subsequently examined through a series of interviews with service providers of varying degrees of internationalisation experience.

Researchers indicate, according to the survey's findings, the experience of internationalised small firms' changing skill needs is, more or less, the same in manufacturing and services. Internationalisation-related basic skills and qualifications of services sector entrepreneurs and employees are, *inter alia*, foreign language abilities, understanding of cultural diversities as well as communication and negotiation skills. Identifying these and other skill shortages in small services firms should not necessarily be followed by intensified personnel training or by hiring new personnel. Instead firms may decide to acquire the skills needed by outsourcing, a trend which, as the study found out, is on the increase.

Cedefop would like to express its sincere thanks to all who contributed to the present study; the firms and their managers and employees, and above all the research team and their coordinator for their work and commitment.

Tina Bertzeletou
Project Manager

Dr Stavros Stavrou
Deputy Director

1. Introduction

Both European integration and the enlargement of Europe will continue to have an important impact on people, cultures and economics, with the introduction of the euro providing a more stable framework for international business. The creation of a single market is removing constraints on economic activity between Member States and contributing to economic prosperity.

However, European firms operate within a global economy, where international competition has become more intense, information more accessible and cooperation across vast distances easier. The many million of SMEs in the EU, even when operating locally, need to understand and respond appropriately to new, worldwide, conditions, opportunities and competition. One of the most important challenges facing SMEs lies in taking profit from the rich variety of opportunities and cultures they can encounter in international activities.

Up to now, SMEs and, in particular, small firms have not benefited sufficiently from this enlarged market and the opportunities for identifying and servicing niche sectors and customers over widely scattered geographic areas.

Prompted by evidence that the majority of small firms are only just beginning to realise that changes in both their immediate and extended environments will have important effects on them, Cedefop carried out a study in 1999–2000 on changing skill needs in small manufacturing firms.

The study aimed to put SMEs in a better practical position to anticipate and respond to the identified changes and to take up opportunities for cross-border and wider international business activities (extended trading, strategic alliances, joint ventures, setting up production subsidiaries, relocation, subcontracting, etc.).

It focused exclusively on the manufacturing sector in seven EU Member States: Greece, Spain, Italy, Ireland, Austria, the Netherlands and the United Kingdom. The synthesis report presenting, analysing and interpreting the results of the study was recently published by Cedefop.

Analysing both the demand and supply side of training, the study also aimed to put supporting agencies in a better practical position to facilitate the process by which SMEs become international (awareness, responding to international developments, creating links with foreign partners, maintaining and managing international relationships).

Encouraged by the outcome of the survey, Cedefop decided to commission a follow-up survey covering small firms in the services sector. Despite its

smaller scale, the new survey covered the same seven EU member countries as before and the methodology employed was similar. The new survey also set out to investigate whether there were similarities or differences between the two types of small firms surveyed.

The results of the new survey are presented in this synthesis report, which is, as before, backed by corresponding reports prepared at national level.

The team responsible for the preparation of the national reports for the new Cedefop survey was largely the same as in the previous one:

(a) Markus Wachter, of the Austrian Tourism Consultants in Vienna, Austria;
(b) Chara Messini, of the University of Piraeus in Piraeus, Greece;
(c) Laura Solimene, of Universita Cattolica del Sacro Cuore in Milan, Italy;
(d) Tom Martin and Candy Murphy, of Goodbody Economic Consultants in Dublin, Ireland;
(e) Eric Poutsma, of Nijmegen Business School in Nijmegen, the Netherlands;
(f) Alfonso Echanove, of the Instituto de Marketing del Pais Vasco in Bilbao, Spain;
(g) Keith Randle and Nigel Culkin, of the University of Hertforshire in London, United Kingdom.

The members of the team and the scientific coordinator of the study wish to acknowledge the assistance of the small firms' owners and employees they contacted in the countries surveyed.

Finally, we should like to express our sincere thanks to Tina Bertzeletou of Cedefop for her positive contribution in the various phases of the project and in the discussions on interim results, their interpretation and implications for the European SME-related training and support policies.

Professor Joseph Hassid
University of Piraeus
Scientific coordinator of the Cedefop study

2. The significance of the services sector in the European Union

The services sector accounts for a significant part of the European Union economy and it is commonly agreed that it has an important role to play in the Union's economic future and the welfare of its citizens. The sector's share of Union GDP is estimated at more than 70 % (1998 Eurostat estimate), of which the largest part (more than 70 %) relates to 'market services'.

The sector's share in employment is also substantial and it outweighs the corresponding shares of other economic sectors. As Table 1 indicates, services account for more than two-thirds of total employment in most EU Member States. In only two countries (Greece and Portugal) is this percentage below 60 % and it is characteristic that in these two countries the sector competes against agriculture for overall importance.

The comparatively greater importance of 'market services' (*vis-à-vis* 'non-market services') is also shown in Table 2 (which includes corresponding figures for Japan and the United States). As far as the internal composition of market services is concerned, the figures are indicative of the relative weight of distributive trades (wholesale and retail distribution) and of financial services (as well as hotels/restaurants and catering services in Japan).

Table 1

Employment by major sectors of economic activity, 1998

Countries	Agriculture (1 000)	%	Industry (1 000)	%	Services (1 000)	%	Total (1 000)
BE	86	2	1 051	27	2 720	71	3 857
DK	99	4	707	26	1 866	70	2 672
DE	988	3	12 221	34	22 328	63	35 537
EL	704	18	914	23	2 349	59	3 967
ES	1 041	8	4 002	30	8 118	62	13 161
FR	993	5	5 922	26	15 545	69	22 460
IE	–		–		–		–
IT	1 293	6	6 348	32	12 424	62	20 065
LU	5	3	37	22	128	75	170
NL	246	3	1 605	23	5 202	74	7 053
AT	235	6	1 072	30	2 319	64	3 626
PT	654	14	1 717	36	2 392	50	4 763
FI	155	7	614	28	1 405	65	2 174
SE	121	3	1 021	26	2 801	71	3 943
UK	463	2	7 155	27	19 182	71	26 800

Table 2

Structure of services sector value added — International comparisons, 1997 (billion ECU)

	EU-15 (1)	Japan	USA (2)
Market services, of which:	3 489.9	2 059.6	3 298.6
Communication services	4.5 %	2.4 %	4.9 %
Distributive trades	24.7 %	24.0 %	26.0 %
Financial services	10.6 %	6.5 %	9.2 %
Horeca	5.6 %	12.5 %	5.6 %
Other market services	46.5 %	45.1 %	48.2 %
Transport services	8.1 %	9.5 %	6.3 %
Non-market services	1 002.1	297.2	1 113.4
Total economy	6 660.2	3 780.5	6 024.5

(1) Earlier years had to be used for some countries for the breakdown of market services.
(2) 1996.
Source: Services in Europe (Eurostat, 1999)

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There are many reasons underlying the apparent growth of the services sector. Probably the most important, especially for the European Union, are:

(a) the progressive integration of markets;
(b) the facilitation of cross-border provision of services;
(c) the fact that services associated with international trade and investment invariably accompany trade in goods;
(d) entrepreneurs' and enterprises' decisions to set up in other Member States.

The factor which is continuously encouraging the introduction of policies further stimulating competitiveness and growth in the services sector is that services are the only sector of the European economy to have generated jobs during the last two decades. Industry and agriculture have seen a reduction in the number of persons they employ.

Three special structural features of the services sector have been selected for more detailed examination:

(a) the extent of internationalisation in the services sector;
(b) the sector's structure, especially the strong presence of small firms;
(c) the importance attached by services providers to the upgrading of their employees' productivity, especially through training.

With respect to internationalisation, it should be noted that the EU has one of the most liberalised and open markets for services in the areas of trade and investment. The EU is the world's leading exporter and investor in services, accounting for over a quarter of the world's services exports (1). It is forecast that in the context of the ongoing GATS (general agreement on trade and services) negotiations, service markets will be further liberalised allowing for innovation, price competition, higher quality and additional growth for the entire sector.

Looking at the structure of services — as reflected in the composition of the sector in terms of enterprises' average size — the dominance of small firms is apparent. Table 3 provides details of the number of enterprises in various size classes (in terms of persons employed). For market services as a whole, 95 % of the enterprises employ less than 10 persons. At the other end of the size spectrum, less than 1 % of the enterprises employ more than 50 persons. The apparent concentration in the very small size class is more pronounced than in manufacturing (comparative percentages also shown in Table 3) (2).

There is a similar distribution of employees in the various enterprises' size classes, although this time it is polarised between smallest and largest (up to nine persons and more than 250 persons respectively) (see Table 4) (2).

(1) Estimate for 1996 (*Services in Europe*, Eurostat, 1996).
(2) See also Diagram 1.

Table 3

Number of enterprises in the EU broken down by size class, 1995 (%) (1)

	0–9 employees	10–49 employees	50–249 employees	250+ employees
Distributive trades	95.1	4.4	0.4	0.1
Horeca	94.2	5.3	0.4	0.1
Transport and communications	93.1	5.8	0.9	0.2
Financial intermediation	94.1	3.9	1.3	0.7
Real estate, renting and other business activities	95.0	4.2	0.6	0.2
Market services	94.8	4.6	0.6	0.1
Industry	80.7	15.2	3.3	0.8

(1) Earlier years had to be used for some activities.
Source: Services in Europe (Eurostat, 1999).

Table 4

Number of persons employed in the EU broken down by size class, 1995 (%) (1)

	0–9 employees	10–49 employees	50–249 employees	250+ employees
Distributive trades	48.6	20.0	9.4	22.0
Horeca	55.3	21.8	8.5	14.4
Transport and communications	22.4	14.0	10.2	53.4
Financial intermediation	12.8	6.0	9.6	71.7
Real estate, renting and other business activities	38.4	17.6	13.7	30.3
Market services	40.0	17.6	10.4	31.9
Industry	13.8	19.4	19.5	47.4

(1) Earlier years had to be used for some activities.
Source: Services in Europe (Eurostat, 1999).

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Table 5

Average turnover per person employed in the EU broken down by size class, 1995 (thousand ECU) (1)

	0–9 employees	10–49 employees	50–249 employees	250+ employees
Distributive trades	117.2	238.9	348.9	237.4
Horeca	36.6	39.5	59.6	52.5
Transport and communications	68.8	110.0	136.1	80.3
Financial intermediation	296.0	1 319.4	2 338.7	817.3
Real estate, renting and other business activities	86.2	121.2	129.1	79.7
Market services	96.5	205.2	363.8	223.4
Industry	66.0	93.8	136.5	169.2

(1) Earlier years had to be used for some activities.
Source: Services in Europe (Eurostat, 1999).

A comparison of the figures shown suggests that while those not receiving any training constitute by far the majority of the workforce in the specific sector, there are areas where the rate of training is relatively high (financial intermediation, business services). Similarly, in some countries training levels are particularly high compared to the rest of the EU (Denmark, Finland, the Netherlands and Sweden).

Whether international differences in the intensity of training received may be used to explain corresponding variations in labour productivity (relevant figures are presented in Table 7) remains an open question.

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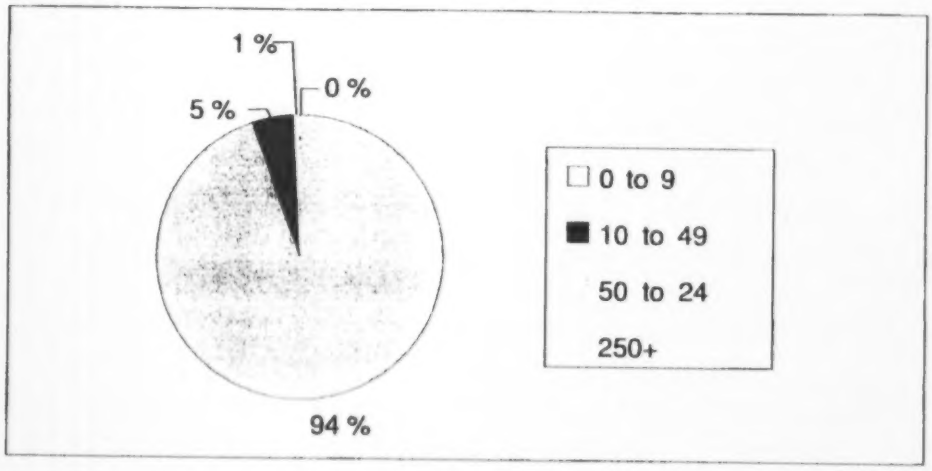
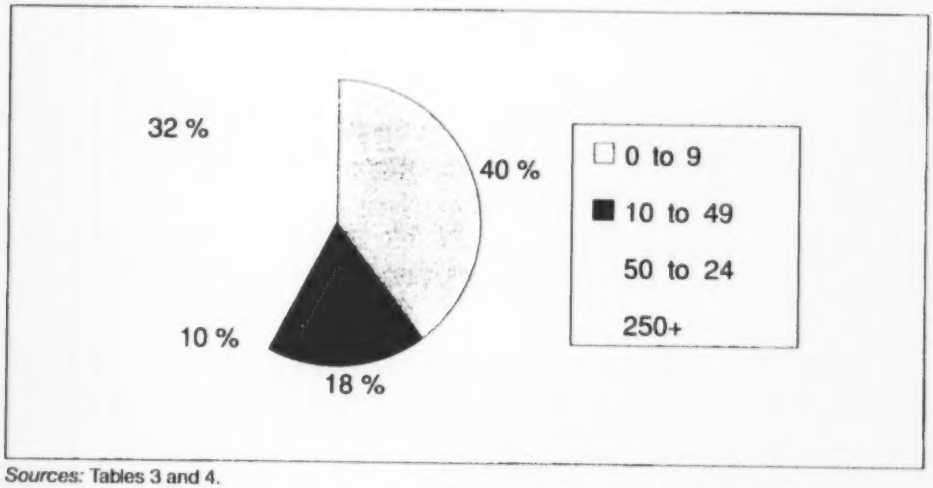
Diagram 1 **Size structure (employees) of European service enterprises**

(a) Number of enterprises



(b) Employment



Sources: Tables 3 and 4.

The size structure of services enterprises is linked to the comparative efficiency of the various size classes, as indicated in Table 5.

Average turnover per person employed is generally seen to rise with the size of the enterprise, usually up to the category of medium-sized enterprises (between 50 and 249 employees). Larger enterprises see their average turnover per head tail off. This statement is true for all service activities covered in Table 5, though it is not the case in industrial activities where average turnover per head continues to rise for large enterprises. The data for both financial services and, to a lesser degree, distributive trades should be viewed with care, as the turnover figures are inflated due to the nature of these activities. It is interesting to note that, for the remaining service activities, average turnover per head was below the corresponding figures for industry ([3]).

Finally, the ranking of individual types of market services in terms of efficiency, within each size class, is almost identical, with financial intermediation occupying the top position and distributive trades and real estate, renting and other business activities in the second and third places respectively (with the third place being contested by transport and communications).

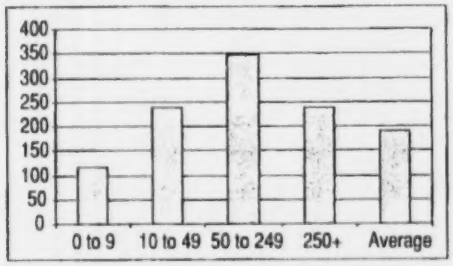
The last of the issues to be discussed is that of labour productivity and associated educational attainment in the services sector. There is a wide range of average educational attainment amongst the different workforces in the EU across different service activities. There are generally low levels of education in hotels and restaurants (7.2 %), distributive trades (11.3 %) and transport services (12.1 %). However, figures for financial intermediation (25.9 %) and business services (37.8 %) are more than double the rates seen for other services. The largest share of the workforce with higher education is found in business services for every Member State, except Portugal (where a greater share of persons employed in financial intermediation has a higher education). In Belgium, Greece and Ireland the majority of those employed in business services has a higher education. The same is true in financial intermediation in Belgium.

However, the potential to increase labour productivity and, as a result, the sector's competitiveness and its labour force employability and employment does not rest purely with education. Training may also allow increases in the skills level of the sector's workforce. Table 6 provides indicative information on the emphasis attached — in various services subsectors in EU Member States — to training of services employees.

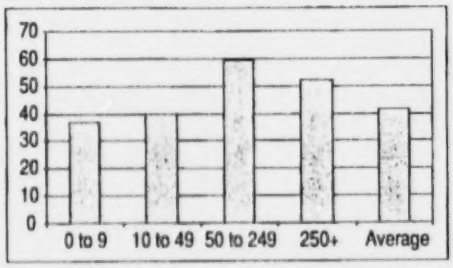
([3]) Eurostat: *Services in Europe* (1999), p. 57.

Diagram 2 **Labour productivity by size class in European services sector**

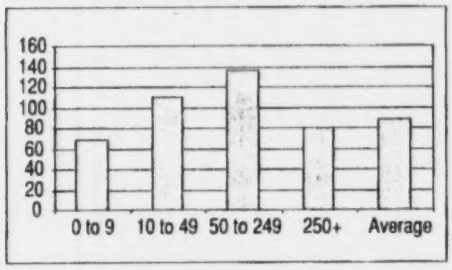
(a) Distributive trades



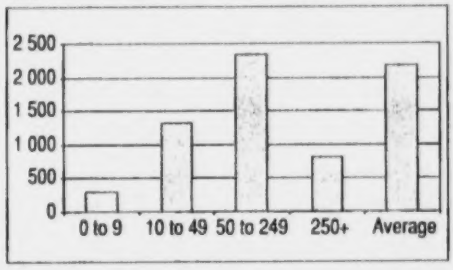
(b) Horeca



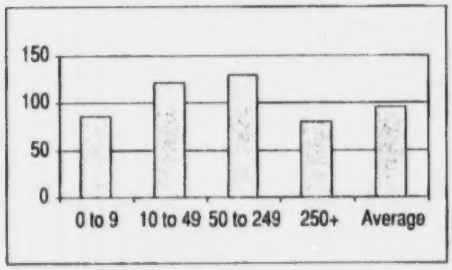
(c) Transport and communication



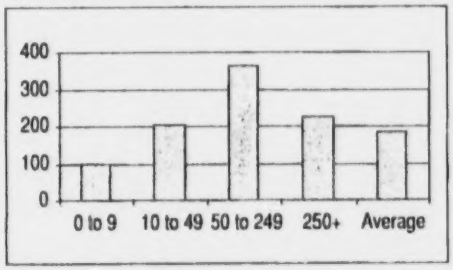
(d) Financial intermediation



(e) Real estate, renting and other business activities



(f) Market services



Sources: Tables 4 and 5.

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Table 6

Percentage of employees not receiving any training (1)

	Distributive trades	Hotels and restaurants	Transport services	Financial intermediation	Business services	Market services
BE	97.4	97.3	97.4	94.1	95.6	97.2
DK	86.8	79.3	79.1	70.9	78.9	82.7
DE	97.0	95.9	95.9	93.3	93.6	96.1
EL	99.3	99.2	99.4	98.6	98.5	99.3
ES	97.7	96.8	97.1	93.2	95.5	97.2
FR	98.6	98.5	98.5	96.9	97.1	98.2
IE	94.9	95.8	95.1	88.5	87.5	93.1
IT	97.2	97.6	96.0	93.1	95.7	96.8
LU	98.5	99.2	96.7	94.0	96.0	96.7
NL	86.8	85.4	88.1	72.2	81.3	84.7
AT	92.1	95.7	92.5	88.2	91.7	92.5
PT	97.2	98.7	95.8	90.8	92.1	96.6
FI	85.1	84.0	87.1	58.8	76.7	82.3
SE	81.3	83.7	72.5	55.9	73.5	75.6

(1) Percentages indicate number of employees not receiving any training during the four-week period prior to the 1997 annual labour force survey in EU countries (excluding UK). Earlier years had to be used for some activities.

Source: Services in Europe (Eurostat, 1999).

Table 7

Labour productivity in market services, 1996 (thousand ECU/head)

	Distributive trades	Hotels and restaurants	Transport services	Financial intermediation	Business services	Market services
BE	53.2	56.1	77.8	54.7	85.3	61.4
DE	39.6	19.2	–	83.0	91.1	110.1
ES	28.4	34.2	30.6	58.2	83.0	37.6
FR	46.3	44.4	46.8	64.9	84.7	85.1
IT	37.1	32.5	38.7	65.9	105.5	65.9
LU	44.1	31.3	–	145.1	128.0	94.5
NL	38.1	39.3	47.1	90.6	83.4	82.2
AT	45.7	36.4	39.2	83.3	111.1	91.1
PT	19.2	13.7	23.1	57.1	47.6	30.5
FI	31.3	26.3	51.1	48.8	77.6	78.3
SE	37.6	29.8	–	77.1	77.3	75.7
Japan	39.7	40.3	62.6	62.6	83.6	81.9
USA	37.0	27.5	43.3	125.2	77.9	59.6

Source: Services in Europe (Eurostat, 1999).

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3. Goods-producing and services small firms compared — *Ex ante* comparison of internationalisation strategies

Although the two Cedefop surveys of goods-producing and services small firms are both based on rather small samples, recognition and interpretation of the two sectors' peculiarities allow the formulation of a number of hypotheses and predictions as to small firms' internationalisation strategies.

These hypotheses could lead to a number of arguments. First, services are produced at the moment of service delivery. They cannot be produced as an inventory. This means that availability of capacity is an important requirement for immediate delivery of the service. For the internationalisation process this implies that small service companies need to know in advance capacity available to be used for international services. This also means that foreign clients cannot assess beforehand the quality of the deliverable but must rely on the supplier's past performance and references. This means that small internationalising services firms have to promote their experience in the field to the prospective international clients.

Next, services are produced and delivered in close cooperation with the client. In most cases the client himself is co-producer of the service being bought. In most cases services are dedicated and non-standardised and so internationalisation demands continuous contact with foreign clients and agents.

Finally, services are, in most cases, produced by skilled workmen, in cooperation with the client's own workforce. This personal relationship and interaction is characteristic of the internationalisation process in services to a larger extent than in goods-producing environments. This means that building relationships and trust are important conditions for successful internationalisation of services firms.

Based on these arguments, certain predictions may be formulated. First, we may expect that services firms will find it difficult to get market access since

they cannot readily demonstrate a product with technical specifications. Access to suitable contacts and oral communications will be more important since firms need more developed personal relationships and clients.

Next, there is reason to expect that there is more emphasis on increased employee responsibilities since services are produced in a personal relationship with clients. Since employees' activities cannot be continuously monitored directly, there is a need for greater trust in the performance of the employees engaged in international services.

It is also expected that several key factors are more important for internationalisation of services than for internationalisation of goods-producing companies. Due to the need for close cooperation with clients and the greater need for developing trust in personal relationships while presenting expertise in services, qualified and skilled personnel are very important. This especially concerns understanding of cultural diversities and communication skills.

In addition, promotion of networking is an important support to the client-supplier relationship. This should be supported by an action-learning approach and by exchange of experiences and group work. The greater need for communication skills requires personal training with feedback on the communication and behaviour of staff.

Finally, it is expected that trainers' experience and case studies based on real world situations are more important as training process characteristics for internationalisation of services, because of the complexity of more developed client-supplier relationships in services.

4. Internationalisation and skill needs: synthesis of the results of the Cedefop survey

4.1. Introductory remarks

This part of the synthesis report presents and discusses the findings of the surveys carried out in seven EU countries among small firms in the services sector.

The survey is a follow-up to a study carried out in 1999 on internationalisation and the changing skill needs of small firms in the manufacturing sector (Cedefop, forthcoming). Both studies attempt to provide answers to crucial questions related to the competences required for efficient internationalisation and the extent to which small firms — from the manufacturing and the services sector respectively — posses them or could acquire them through initiatives aimed at improving the present situation.

The countries covered in both studies are Austria, Greece, Ireland, Italy, the Netherlands, Spain and the UK. The services activities from which small firms were selected for participation in the present survey are:

(a) Austria — transport consulting (management consulting and training services);
(b) Greece — software, educational services;
(c) Italy — software, architectural and industrial design services;
(d) Ireland — software development and marketing;
(e) Netherlands — software, catering services;
(f) Spain — training services, transport;
(g) United Kingdom — software tools, multimedia programmes.

The present survey covered 14 small services firms, all employing less than 50 persons, with varying degrees of internationalisation experience. While the choice of enterprises to be contacted was left to the national experts' discretion, the outcome of this selection process resulted in the majority of cases being from the software sector (applications and services) with eight of the 14 firms providing this type of service. Three other firms are in educational/training services (Austria, Greece and Spain) and two are transport companies (Austria and Spain).

4.2. Factors inducing internationalisation of small services firms

Many enterprises in the services sector — especially the small ones — are, almost by definition, oriented only to local markets. While there are restrictions on market expansion due to limited special resources necessary for internationalisation, such an orientation is also the result of the very nature of the services produced. For example, small firms in the retail distribution industry or in catering and hotels are, in most cases, expected to deal only with local customers (consumers or/and other firms). The same applies for construction companies and many other types of services.

As with the small goods-producing firms, there are both macroeconomic and microeconomic factors which might induce small services firms to internationalise their activities. These factors were described in the previous Cedefop study ([4]).

On the macro level they are:

(a) the emergence of common or open markets and the reduction of protectionist barriers; this is especially important in Europe where the creation of a unified internal market is nearing completion;
(b) the increased globalisation of large firms in specific industries (such as automobiles, computers, etc.) which have subcontracting relationships with SMEs;
(c) increased levels of world trade and foreign investment;
(d) increased mobility of capital, technology and management;
(e) increased currency movements which have changed the relative competitiveness of different economies.

It should be obvious that the above factors work equally well for goods-producing and for services firms. Furthermore, for the latter it is argued that, since the demand for their services is a 'derived' demand (services are, to a large extent, demanded because they are linked to demand for tangible goods — e.g. distribution, transportation, business services, etc.), internationalisation of goods-producing firms (large and small) is bound to impact on the structure of activities of services producers.

Micro level factors include:

(a) changing technology, communications and organisational forms which make international SMEs more competitive;
(b) increased opportunities for SMEs to extend their value chain across borders as a result of cost differentials or other factors;
(c) changing attitudes and managerial skills.

([4]) See Cedefop (2002), Section 4.3.

Several investigations of the factors inducing small firms to start operating abroad (by exporting or otherwise) suggest that the decision is basically triggered by the same considerations: the firm seeks growth but cannot achieve it in its home market, i.e. there are specific features which push it to seek growth elsewhere. At the same time, expansion opportunities are identified in other markets, pulling the firm towards them.

The results of the surveys show that in most cases — for goods-producing and services firms alike — the pull factors are the most important ones. The common answer to the question 'Why did international activities start?' is the attractiveness of foreign markets ('saw market potential abroad'). The services firms suggest that conditions prevailing in markets geographically close to their home markets (UK for Irish firms, central and east European countries for Austrian firms, Germany for Dutch firms, Balkans and North Africa for Greek firms) provided powerful stimuli and inducement for international expansion.

At the same time, the limitations to growth set in certain cases either by small home market size or by experienced or anticipated deceleration of its growth also 'pushed' a number of firms to expand abroad. This applies especially to services firms which could be characterised as technologically advanced in their own specific line of business (training laboratories in Spain, software in the Netherlands).

It is probably indicative of the fact that EU governments shaping internationalisation promotion measures primarily have goods-producing firms in mind, that 'government encouragement' is not considered to be a facilitator worth mentioning for services firms. Instead, several of the firms participating in the survey made reference to the positive impact of another facilitator, namely funding being made available through international development assistance organisations (the European Union and the World Bank were specifically mentioned by Austrian, Greek and Spanish services firms).

Operating in international markets is, however, more difficult than operating in the relatively familiar environment of the home market. The difficulties encountered by services firms are associated mostly with their access to suitable contacts and market access. These two types of difficulties were also identified as the main ones for goods-producing firms ([5]). Perhaps as an indication of the strongly personal character of doing business in services, 'oral communication with foreign partners' was also mentioned as an important difficulty.

([5]) See Cedefop, *Internationalisation and changing skill needs in European small firms* (2002), Section 4.6.

4.3. Strengths and weaknesses of services small firms

Apart from minor differences in the relative position of a series of factors, both surveys demonstrate very vividly such firms' tendency to emphasise their limited resources (low advertising budget, limited market information, etc.). For services firms in particular, their effectiveness in personal relationships is considered to be among their strong points. Furthermore, because of the strong presence in our sample of technologically effective small firms, their 'ability to handle new technologies' was only included among their strengths.

4.4. Keys to success of internationalised small firms

Based on their experience, the surveyed small firms were requested to indicate the factors which they consider as 'keys to success' in international activities. Such factors have been repeatedly discussed as affecting firms' effectiveness in international operations.

These factors can be divided into three groups depending on their character:

(a) personal factors related to the owners' personal characteristics and embodied past investment (e.g. being committed, understanding cultural diversities, being open to outside advice, language skills);
(b) technical factors associated with firms' technical and/or administrative efficiency (e.g. cost competitiveness, product adaptability, coping with international transport and payments, communications facilities, etc.);
(c) managerial factors reflected in the ability to select staff, agents, distributors and to target markets.

In the case of manufacturing firms the consensus was that the most important 'keys to success' were the following:

(a) finding the right agents/distributors;
(b) choosing the right export market(s);
(c) being committed, confident and persistent;
(d) using fast communications;
(e) having foreign language abilities.

The services firms surveyed provide very similar rankings of success factors. The realisation that expanding into foreign markets relies decisively on personal interaction with foreign partners and clients puts even more emphasis on the owners' and/or key employees' understanding of cultural diversities. Such diversities may relate to business ethics, dealing with EU countries and, to a lesser extent and mostly in the past, with African countries.

4.5. Small service firms' internationalisation-related competences

The special circumstances created during the process of internationalisation result in firms needing a set of competences which they might have done without had their activities remained confined to their home markets. In particular, the recognition presented earlier of the key importance of the firm being able to identify suitable partners and distributors abroad, to understand cultural diversities and to communicate effectively with customers and authorities in the foreign markets, emphasises the need to develop competences such as foreign language skills, negotiation skills and communication skills.

This emphasis is common among manufacturing and services small firms. Views expressed during interviews with owners highlighted the decisive character of language skills. The importance of such skills is recognised by all the firms interviewed, a noticeable exception being service firms in Spain which concentrate their international activities in Latin American markets where Spanish is spoken.

4.6. Mechanisms and procedures for the development of internationalisation-related competences

When small firm owners in the surveyed countries were requested to provide an assessment of alternative mechanisms through which internationalisation-related competences could be developed, they revealed their preference for practical results-oriented mechanisms, such as on-the-job training and exchange of experience. In the case of goods-producing firms, their owners also suggested that visiting trade fairs was found to be a useful experience which provides them with many insights into business trends, colleagues and competitors' practices and opportunities for contacts. Services firms put less emphasis on such fairs, presumably because, in their case, contacts are arranged and developed in a more personalised way.

In contrast, other mechanisms such as distribution of written material, videos, CD-ROMs, etc., do not seem to be trusted much. These results should be taken into account by training planners, especially since some of the training tools/techniques mentioned are actively promoted as 'new training technologies'. It may be argued that it is not the techniques themselves which are dismissed when compared with other, allegedly more effective, mechanisms, but the specific applications offered to small firms. This argument should be evaluated together with

the indication of low effectiveness for such techniques/tools as distance learning, CD-ROMs, etc.

Acquisition of internationalisation-related competences may be the result of other (non-training) support services. Such services are usually provided by State organisations and/or sectoral bodies. A characteristic of these types of service is that they are subject to substantial economies of scale and therefore it is difficult for the individual firm to secure them. While the fixed cost of providing such services may be substantial, variable costs may be low and affordable. Firms' contribution to this cost is, in many cases, subsidised through various schemes (which are more developed in the manufacturing rather than the services sectors).

The mechanism most favoured by small firms in the services sector is promotion of networking. This is obviously linked with the observation presented earlier of the crucial importance of developing distribution and market penetration through formal and informal links with distributors, agents and information sources established in the target markets.

The training practices of small firms in the goods-producing sector were examined in detail in the previous Cedefop survey (*). In the case of services firms, the findings are basically the same.

(a) The common practice for participation in training programmes is for the firm's owner to be accompanied by some senior employee(s). For most services firms, the personnel being trained are mostly involved in export sales.

(b) Certain factors inhibit small firms' participation in training programmes:
(i) programme cost;
(ii) unsuitability of organisational arrangements (time, distance, etc.);
(iii) limited prospects for utilisation of new training;
(iv) lack of interest on the employees' part.

(c) In cases where the rate of technological change is very rapid (as, for example, in software applications), the option of hiring new-trained personnel seems to be preferable when compared to the alternative of training existing staff.

For services small firms, the cost issue does not seem to be a major concern, probably because externally provided programmes are fewer for such companies. For internal, on-the-job training and for training provided free-of-charge by suppliers, direct cost estimation is irrelevant.

Small firms in goods-producing and in services sectors alike agree that concern for small firms' special needs, which is usually associated with provision of tailor-made programmes, is an important criterion for selecting training programmes. Trainers' experience and training techniques used are also mentioned as important.

(*) See Cedefop, *ibid*, Section 4.11.

5. Individual countries surveyed and survey results

There follows an overview of comments from the results obtained in individual country surveys. The material presented is derived from the corresponding national reports prepared by the institutions participating in the survey (see Annex).

5.1. Austria

The case studies selected for the Austrian part of the survey were one firm operating in the field of transport, and another operating in the consulting business.

These two sectors were selected because of their rapid growth in Austria during the last decade. Both sectors, transport and consulting, have registered the largest increase in the number of enterprises in the period 1990 to 1999: +44 % in the transport sector and almost +300 % in consultancy services. Both sectors are also characterised by a relatively small-sized enterprise structure, unevenly developed inter-enterprise cooperation, as well as a growing internationalisation of business mainly towards the central and east European markets, which are thought to offer great potential for future developments.

The first case study concerns a long-established Austrian transport company, located in Vienna, of SME size (employing up to 18 persons), with well-established international business.

The importance of this services subsector in Austria is associated with a two-pronged development: concentration on the one hand and persistence of small firms on the other. Austria has about six large international road transportation firms and about 4 300 (1998) small-scale enterprises. Only about 150 enterprises have a vehicle fleet of more than 20 lorries. The reason for this situation is strong international cooperation and large-scale operations necessitating big companies, but also flexibility and increased customer-orientation favouring the operation of small firms.

The surveyed firm has followed all technical developments in the transportation sector (such as the change from horse-drawn to car-driven transport in 1928) and survived through flexibility and continuous adjustments the various technical, political and social evolutions of the past century.

Because of the overall concentration process in the Austrian transport sector, the firm tries to explore new niche markets. Commitment to quality and reliability are key factors for achieving a sustainable market position in these segments, where flexibility and personal customer relationships are more important than just a competitive price.

Information obtained through the interviews held with the company's manager pointed to the confidence of the Austrian transportation SMEs in the strength of their local customer-orientation and flexibility with regard to changing transportation needs. This strength is evident in the inner-Austrian competition, where big companies dominate and small companies are facing considerable difficulties in obtaining business.

International and domestic cooperation are increasingly sought. Acquisitions abroad are, however, considered as highly expensive and left to big companies. Increased business is expected in the domestic market from the expansion of e-commerce and the operation of electronic dispatch of transportation services. More business is also expected from the gradual opening of the economic frontiers towards the east.

SMEs in transport thought motivation of their personnel relatively easy. Transport personnel tend to be loyal to their firm and relatively little personnel turnover (about 10 % per year) is reported. Drivers are generally not reluctant to travel in and to foreign countries and to deal with foreign languages. Office personnel do not complain about problems with foreign languages or with communication techniques with other countries, as negotiations are still largely held in English or German.

Foreign language skills are generally expected from senior or management personnel in the international transport business. These skills are, traditionally, mostly available only in English, sometimes in French and Italian, following past transport experience concentrated mostly on western European countries.

Knowledge of Slavic languages is still rare in Austrian enterprises. This problem is increasingly felt with the extension to, and expansion of business into and from, eastern and central European countries. It may be that the possible integration of Slavic language-speaking personnel after the extension of the European Union towards the central European countries will lead to improvement of the situation.

However, it is considered to be of paramount importance that the command of such language skills also by Austrian management personnel should be available as early as possible to the transport business. This will ensure competitiveness of Austrian SMEs in the transport business in central and east European (CEE) countries in transition. Furthermore, new and changing skill requirements may arise for drivers and management through the application of electronic

surveillance and dispatch of transport services. This development is, however, not anticipated to raise major problems of training and adjustments, and relevant training needs will be mostly met through immediate on-the-job-training in information techniques. If the need arises, after-sales agreements in the form of initialisation training will be sought. However, during interviews it has become clear that younger employees adapt more easily to the changing technical environment.

Awareness of the changing legal environment is required of management personnel and persons responsible for office work, constantly demanding reliable channels of information and clear presentation of data.

Summarising the findings of the interviews, it should be emphasised that there is a need for encouragement in various forms, be it from the management of the Austrian SMEs themselves, from the Austrian federal and regional chambers of commerce, the employees' unions and also from government agencies. More and stronger partnerships with potential transport enterprises in CEE countries could constitute a basis for language training and exchanges of professional experience.

The interviewee on the subject of official requests stressed the need for more distance from the State, the desire for less interference by bureaucratic agencies, less State demand for statistical reporting and reduced legal and bureaucratic burdens on firms, particularly small ones.

The second firm surveyed in Austria is a consulting enterprise, SME-sized, employing about 30 persons, with growing and new business in the direction of central and east European countries.

European, and particularly Austrian, consultancy businesses are still predominantly oriented towards west European countries. Austria has the highest percentage (97 %), followed by Finland and Italy with 95 %, while most other countries have a rate of about 90 %. At the same time, Austria has the highest orientation to business in central and eastern Europe (3.4 %), followed by the United Kingdom (3 %). It is interesting to note that Sweden has the highest rate of business with the rest of the world (13 %), followed by France and Spain (10 %).

Management consultancy business in Austria is almost entirely conducted by SMEs; 9 360 enterprises were registered at the end of 1998 in this sector and about 51 300 persons were employed in these enterprises. The predominantly small size of the Austrian consultancy enterprises should be underlined: 88 % of these enterprises employed only one to nine persons, 60 % of the persons employed in this sector work in the SME segment.

The selected enterprise is a young, private and independent company. Its activities, in Austria as well as abroad, cover all major fields of technical assistance and general consulting, enterprise development, restructuring, human

resources development and educational consulting, concentrating however on activities in the field of management development, languages and information technology training.

The enterprise was founded in 1993 by a group of Austrian management consulting experts and is now part of an international network of training and consulting companies with contacts all over Europe. EU-funded contracts became a major market for consulting firms in Austria after the country's accession to the European Union.

Major opportunities are found in the growing need for consulting services and technical assistance funded by international agencies, in particular the European Union; these services are provided to central and east European countries as well as to overseas developing countries. This implies particular challenges for staff recruitment by consulting firms, with manpower requirements being met through the enterprise's international cooperation network. The financial risk of international business is largely removed because of external funding of activities, though terms of finance often imply a long wait for payment and considerable pre-finance cost for the consultancy enterprise.

The firm surveyed sees its strength in its international network, which enables it to meet demand, irrespective of project size, geographical location and terms of implementation. Its small, but highly qualified, team of experts can deal quickly — alone or complemented by foreign experts — in all fields of consulting and training activities for private enterprises and government agencies.

The enterprise recognises that international business acquisition is often decided by strong lobbying efforts dependent on available manpower. The managers consider lobbying, inter-company cooperation and international networks necessary for small consulting firms in order for them to maintain and increase business, particularly in foreign countries.

Office staff are normally recruited among young personnel with prior commercial training or among persons holding certificates of higher education. Further training and experience and familiarity with the enterprise's operational guidelines and working philosophy are transferred through introductory training and on-the-job experience. Expert staff are selected from experienced persons with university or equivalent education. Education and experience in cultural management are preferred curricula elements; prior travel experience is appreciated.

Foreign language requirements usually include English and possibly a second alternative. Those competent in Slavic languages are, however, rarely available in Austria and this constitutes a weak point in the enterprise's personnel structure.

All the expert staff are supposed to be familiar with, and continue to develop knowledge and experience in, professional project management, cultural management techniques and quality control. Constant changes in required training and consulting areas necessitate flexibility. Growing internationalisation calls for increased mobility and points to the need for appropriate language skills. Continued training is required for all expert staff members and facilitated or provided, if necessary, by in-house seminars.

Besides the need for personnel who are competent, flexible and mobile, a major factor in international consulting is the need for a strong financial basis. Financing terms are often characterised by extended payment conditions which can place strains on the enterprise's financial situation. Interviewed firms expressed a strong recommendation for newcomers to the international scene to join internationally active networks. Hindered by their potentially significant cashflow problems, small independent operations may find it difficult to succeed, either in the domestic or in the international market, unless they intensify their use of shared resources.

Traditional thinking and practices — not adequately internationalisation-oriented — still prevail in dealing with senior staff or contacts in general in certain foreign countries. However, a steady improvement is being observed, particularly in training for younger people in CEE countries. A major problem however in working with these countries is the frequent change of contacts in the client institutions.

The long payment schedules for consulting services rendered on behalf of EU agencies or other donors is heavily criticised and considered to be a significant and undesirable draw on the benefits of international business. Improvements in the bureaucratic payment procedures by these agencies are strongly recommended. The restrictive participation rules for international tenders, which are considered to ask for excessive detail on internal and private affairs, are also heavily criticised. These rules are considered to be in contradiction with free market competition favoured for international business according to EU free-trade principles.

5.2. Greece

The report on the Greek service sector was based on two case studies selected from the software/hardware sector and the private education services sector. Four personal interviews with owners and/or executives and key employees were conducted on the firms' premises, accompanied by general telephone discussions.

5.2.1. **Case study 1. Computers and software services**

The broad sector of software and hardware in Greece is estimated at GDR 260 billion (EUR 88.4 million) in 1999, presenting an average growth rate exceeding 20 % annually over the last four years. The high growth rates are mostly due to the anticipated year 2000 problem (Y2K), the imminent introduction of the euro and economic convergence, high investment in the public sector, the Olympic Games of 2004 and the liberalisation of the telecommunications market.

The Greek informatics market comprises 2 500 enterprises of all sizes, operating in a mature sector, where competition is becoming fierce, suppressing profit margins and forming 'oligopoly' schemes, through vertical or horizontal integration. Prospects are based upon specialisation, high investments in technology, reorganisation and geographical expansion.

The specific firm surveyed was founded in 1989 as an importer of software and hardware products. Today the company provides integrated solutions in these areas as well as Internet services and its main clients are chambers, manufacturing and service companies, banks and public organisations.

The firm's internationalisation, apart from the import activity, included a joint venture on information technology and telecommunications in Uzbekistan, which comprised exports of hardware and software as well as transfer of know-how and training. Other partners are located in the wider area of east European countries, as well as Germany and the United Kingdom. In addition the company is participating in research programmes funded by Greek and foreign institutions.

With a total of 26 employees, the firm has retained a simple organisational structure, with the founder being the 'soul' of the business and keeping the leading role in the internationalisation process. The company is continuously involved in training practices, offered almost exclusively by the large multinational IT providers, who possess the necessary expertise, highly qualified trainers, ability to follow up and certification.

The suggestions for collective bodies are focused mainly on the improvement of the insufficiencies in public education issues on informatics, organisation of training programmes and allocation of EU funding.

5.2.2. **Case study 2. School of health professions**

Total expenditure on education comprises about 4 % of Greek GDP (1997), which is one of the lowest in the EU. Private education expenditure represents about 32 % of the total (1997), with increasing trends in public spending, especially at basic and secondary education levels.

There were 93 vocational training institutes (third level) operating in Greece in 1999, the number of students having increased by a factor of four since 1993.

The main reasons for this growth are the gap between supply and demand of public education institutes, as well as the flexibility of the private institutes to provide new technical specialisations.

In the market of high-level private institutes some 10 big players share almost 70 % of the business, with the case study company holding fifth position. Most businesses have developed franchise agreements or certification relationships with European universities. Competition in the market of third-level institutes is quite strong and is focused on the level and the variety of specialisations and programmes and the services provided.

The firm surveyed was founded in 1967 by two medical doctors and specialised in the provision of training for health professions. It is now a group of technical vocational schools and a vocational training institute providing high-level studies in a large number of specialisations. The firm's internationalisation was realised in its early days by providing services to students from Egypt and Libya, in the context of contracts with the respective governments. In addition, since 1990 it has been participating in various EU research programmes, in cooperation with European universities and other educational institutions.

In recent years, the firm has experienced high growth rates, which resulted in the expansion of business, premises and personnel. Yet it keeps a simple organisational structure, with a core number of directors and administrative personnel, all involved in both domestic and international issues. Internationalisation required more responsibilities being allocated to both existing and to newly hired personnel.

The firm studied has had limited use of internal training services, preferring exclusively private organisers 'on demand', who have the expertise to provide training practices adapted to small firms' needs. Its requests to collective bodies are mostly focused on private education policy, the organisation of EU funding programmes and international public relations, especially through embassies abroad.

5.3. Ireland

The Irish economy has experienced high rates of growth in the last five years and is currently one of the fastest-growing economies in the European Union. The services sector in Ireland accounts for approximately 58 % of gross domestic product. The majority of new jobs recorded in the last decade have been in the services sector and the expectation is that the bulk of new jobs in the next decade will be in services.

Historically, Irish economic development policies in the last 30 years have focused on the promotion of the manufacturing sector and in particular on attracting foreign direct investment. Taxation policies favoured manufacturing companies who enjoyed a low corporate profits tax regime while service companies were taxed at a much higher rate.

It was only in 1993 that policy-makers began to realise the employment and wealth creation potential of the services sector in Ireland. Since then there has been official recognition of the importance of services to the Irish economy and the introduction of new fiscal measures — including the promise to equalise company taxation rates at 12.5 % — to assist the development of the sector. The change at policy level has been followed by increased recognition among the main SME development agencies of the importance of internationally traded service companies as a generator of employment and exports.

The survey in Ireland was conducted in cooperation with two small software companies which are actively involved in exporting. The first case study company developed from serving a local customer base to developing exports sales to the UK. The second company also started by serving local customers but, in an innovative approach to export markets, established an export sales base in the UK. Its export sales subsidiary in the UK has since been purchased by a large US company but there are important lessons for small Irish service companies in terms of its approach to export markets.

While there are differences between the above case studies and those previously undertaken in the manufacturing sector, there are a number of close parallels. These include the need to develop middle-management skills in SMEs, particularly in technology-based small companies. There is a need for training in sales and export marketing for managers with technical backgrounds to enable the companies to implement export sales and marketing strategies.

Additionally, the experience of all four case studies — and particularly the service sector case studies — underline the need for training to be provided to all staff members to enable them to have the confidence and ability to interact with customers. This was seen as being important not only for sales executives but also for 'back room' staff who handle technical queries from customers.

Another important parallel is the extent to which the more progressive case study companies retain control of export sales and marketing strategies. These companies prefer to have closer contact with customers and have a greater control of the marketing of their products or services.

There was also an overlap between the case study companies' participation in external training networks which allowed them to benchmark themselves with enterprises at a similar level of development.

5.4. Italy

The previous survey of internationalised small goods-producing firms in Italy revealed a poor level of internationalisation of Italian SMEs. As a consequence there was poor consideration of training practices in general and, in particular, of those regarding the competences related to penetration of foreign markets. Concentrating the attention of the new survey on the services sector produces a higher number of firms but they are even less internationalised than the manufacturing ones and, as a consequence, training does not appear to be a central issue for the firms interviewed.

The relatively low recourse to training by firms to support their internationalisation process is mainly due to the limited internationalisation of Italian firms, in particular of SMEs in services. It is important to point out that this also depends on the type of services supplied, namely standardised or not standardised. Attention has been concentrated on non-standardised services, such as a tailored software and interior and industrial design, with work organisation similar to the one characterising a craftsman's activity, whose products are of high quality and highly specialised. To obtain homogeneous products, rigorous employee selection procedures and appropriate training are necessary. When working with potential partners for the delivery of services the central role is played by customer/supplier interaction and by the impossibility of sustaining this interaction from a distance. Therefore, it is more difficult to support this activity with formal training.

The situation changes with regard to standardised services. In some ways the internationalisation process may imitate more closely that of manufacturing products, also showing similar training needs, but this intuition needs to be supported by more research, both qualitative and quantitative. The previous study underlined the existence of serious information gaps about the internationalisation process among manufacturing SMEs; this lack of information is even worse for the services sector.

5.5. The Netherlands

The Dutch part of the survey presents two case studies and an assessment of the differences between small goods-producing companies and small services companies concerning their internationalisation process and the required qualifications and skills. The two cases have been selected from the commercial services sector. Commercial services is a booming sector with great potential for

internationalisation while the catering sector is more traditional and less internationalised. The report focuses on interviews with the owner/manager of the companies. No interviews were held with employees due to the fact that the entrepreneurs were the main agents in the internationalisation activities and because relevant employee respondents were no longer available, both companies having reduced their internal internationalisation efforts.

The experience of small companies are more or less the same between goods-producing and services companies. The four most important success factors mentioned by both entrepreneurs in services draw attention to the basic skills and qualifications of entrepreneurs and employees in the firm:

(a) having foreign language abilities;
(b) being committed, confident and persistent;
(c) training existing staff;
(d) understanding cultural diversities.

Compared with goods-producing companies, the above success factors may be more important in services since services tend to be based on personal relationships, and thus personal skills, and less on providing a well defined product. In addition, services tend to be more complex in development and provision. This complexity caused both entrepreneurs to change their attitude towards the internationalisation process and reduce their activities by outsourcing or stopping the services.

An important outcome of this research is that internationalisation is not a sequential process prior to which the entrepreneur and staff follow a training programme that elaborates the necessary competences. Instead, the well-established pattern is that of competence development mainly on-the-job, using networking as an important tool for learning about the competences needed and to experience the necessary competences. This is especially the case in services. Compared with goods-producing companies, services tend to be more dedicated and complex.

This method poses a serious problem for training and support since training and support agencies lack a clear path for analysis of skill needs within a typical process of internationalisation of a typical firm. However, there are main general competences that support the key success factors and that could be highlighted during competence development. The most important ones are:

(a) foreign language skills;
(b) communication skills with foreign partners;
(c) negotiation skills in foreign environments.

These are general competences that are important for the development and maintenance of relationships with suitable contacts in foreign markets. The

development of these relationships is also considered as one of the main difficulties in the internationalisation process.

It may be concluded that, especially in services, the internationalisation of small companies appears to follow a path of action learning — that is, the internationalisation process is learned mainly on-the-job. Looking back, the process could be described as a 'specific' development path. At the moment of passing, however, from one situation to the other there is not much awareness on the part of entrepreneurs and employees. For the company this means that it is difficult to define needs for training for internationalisation. For providers it means that it is not easy to discover the specific needs of a company in a typical situation. This may lead to the situation where small firms find little effectiveness in the programmes offered and try to develop the skills and competences themselves during the internationalisation process through on-the-job training. This is a dilemma that can only be solved through the experience of providers, allowing assessment of the situation and tailoring of training. Dialogue on all relevant aspects of skill needs and competences is essential to finding a solution to this dilemma.

5.6. Spain

The selection of the two services small companies to be surveyed in Spain was based on the fact that they could provide two different experiences. The sectors chosen are completely different and so are their characteristic needs and problems.

The first company was selected as an example of 'good practice'. The company is a provider of technological solutions in the field of education. Interviews were carried out with the owner and the export sales representative in their offices in the Basque Country. Some opinions were also collected from various members of staff in formal conversations.

The second case study was that of a company in the transport sector in Arrigorriaga (Bizkaia). Interviews were carried out with people in different departments of this company, mainly the Managing Director, the chief administrator and one of the drivers.

Differences and similarities soon arose from the study of the statistical evidence. The growth of exports has been obvious in both sectors over the last few years. However, some exporters and experts expressed reservations that there might be a less favourable climate for exports in the next decade, despite the official opinions of the government and supporting bodies. Differences

include the use of official general internationalisation framework programmes, which are not so widespread in the services sector. This does not mean, however, that the participation in training activities by directors of employees in the services sector is less representative than in the manufacturing sector.

The human factor plays a decisive role in both sectors. The importance given by the employer and the employees to the leader's ambitions, motivational skills and general abilities in the manufacturing sector appears again in the services sector. In short, the SME owner's profile is one of the most important success factors.

Some differences between the manufacturing and the services sectors may be observed in relation to training in a strict sense. In general, the approach to training can take different routes and interests relate to different topics. However, people in services understand that their activities are always connected with products, while the reverse is not necessarily the case. This may be due to the fact that the area where the two companies are located has always been dominated by a production-led approach to business and, although this is changing, products and not services will continue to be the basis of the economy of the area.

In general, people in services demand more training and believe in its usefulness more than their counterparts in the manufacturing sector. Despite this, the percentage of employees taking part in courses is very low in comparison with the European average. In addition, a common characteristic for both sectors is that the employers and the employees with the highest qualifications are usually those who receive training, thus broadening the gap between qualified and unqualified members of the staff in the same company.

The two case studies and the statistical evidence provided were complemented by interviews held with a more significant number of specialists on particular issues, such as university staff, other exporters and representatives of the Chamber of Commerce, which allowed a broader basis for drawing conclusions. Their contribution was particularly important given that the approach taken towards internationalisation by each of the companies was in many respects different and a generalisation from the two business practices that were studied would not be acceptable.

The experts did not see significant differences which could be taken as general principles separating the manufacturing and the services sectors. The activity itself can lead to different training needs. However, they were very keen to underline the need to search for new analytical tools, methodologies and materials to be used in continuing training, an area where there is still much room for improvement.

5.7. United Kingdom

In the UK there is increasing demand for higher skilled occupations and falling demand for lower skilled and unskilled jobs. The east of England, where the survey was conducted, has an industry sector mix containing many high technology, high-skill business (e.g. pharmaceuticals, electronics and IT, advanced engineering and manufacturing). Hertfordshire, a county within the eastern region, has the second highest proportion of service employers in the east of England. Overall, 80 % of all Hertfordshire employers are service organisations. Prospects for employment growth are much stronger in regions with high proportions of service sector employment. As a result the east of England is expected to benefit from above-average employment growth.

Some 10 % of all Hertfordshire employers consider they have an internal skills gap of some kind for managerial and non-managerial skills combined. This is slightly fewer than the east of England average of 12 %, and lower still than the national average (15 %) reported by the National Skills Task Force from *Skill needs in Britain 1998*.

Hertfordshire has the lowest proportion of business selling into the EU in the eastern region. Nevertheless, Europe is still an important overseas market. Besides Europe, small proportions of Hertfordshire businesses sell to customers in the Far East (3 %), North America (3 %) and other overseas markets (11 %). Medium-sized and large businesses are Hertfordshire's main national and, particularly, international competitors.

In the specific region in which the UK survey took place, two SMEs were selected and interviews were carried out with the owner/managers and key employees in each of the companies.

The first of the two cases selected for the present survey operates in a niche sector of the pharmaceutical and chemical industries. In June 2000 its reported turnover was around GBP 3.5 million. Its markets were described as 50 % UK, with the US and the rest of Europe roughly providing 25 % each. The original idea was to establish a consulting and testing company; however, although this activity continues, this now represents a very small part of the company's activities, while instrument design has increased in importance.

Training was not seen as a particular issue within the firm. Asked whether entering other overseas markets had specifically led to a need for training amongst staff the answer was unequivocally negative, which is perhaps a reflection of the nature of the particular niche markets in which the firm operates.

In the case of this firm it is difficult to identify specific training needs from changing skill needs as a result of internationalisation. Internationalisation is

organically connected to the growth of the company and many of the changing needs of the organisation can be attributed to this growth, for example the need for professional specialists to take on management roles.

The second company describes its purpose as producing 'high impact results-driven web sites and multimedia programmes for companies by being a true new media consultancy — a blend of a marketing agency, graphic design agency and IT company'

The company was set up formally in 1995, without a very clear idea of precisely where the company was going. At that time there was an opportunity to deliver IT training to companies in the local (Hertfordshire) area. In 1996 the company took offices and training rooms and started delivering computer training. At about the same time it started offering web design services. However, income gained from the training side of the business was used to fund the development of the company into new media services throughout 1997/98. A move was also made into networking, although this was ultimately felt not to be viable and that side of the business was closed down to concentrate on training and web development.

Over time the balance of work undertaken has shifted from a position where income was 100 % from IT training in June 1996 to one in November 2000 where web development accounts for around 80 % of income and training about 20 %.

The intention of the company's management had been to keep business local. However, the larger clients were likely to be operating on a global basis and it was this that had led the company along the internationalisation pathway. The skills required were seen as requiring long periods, perhaps two years, of training and were not viewed as something the company itself could invest in. The owner commented that much of the work involved 'a whole new way of thinking'.

On the whole, therefore, the company did not take on wholesale training. Individuals were sought at recruitment who possessed the kinds of skills the company required at that time.

In the case of this particular company, its management was clear that the new strategy prompted certain competence requirements amongst personnel that led to gaps in the company. However, in a way similar to the previous case study, its training needs are not specifically related to internationalisation. Internationalisation is a function of the growth of the company and training needs are related to this growth.

In neither of the cases surveyed is training raised as a particularly problematic issue. Individuals with the appropriate technical skills are available within

the local labour market. Neither firm mentioned difficulties in finding people with the skills needed for effective operation of the company. Similarly they did not feel that skill gaps had arisen specifically as a result of the internationalisation process.

In neither case were any particular issues for collective bodies raised by the owner/managers. The question of growth was central to both and this raised issues of management and finance. In both companies the small firms loan guarantee scheme underwritten by the UK Government had been helpful in encouraging the banks to provide the necessary finance to fund growth.

The findings must be qualified with an acknowledgement that the two UK cases are in high-technology sectors and concentrated in a region where there is a preponderance of such business. In the two cases the specific sectors in which they work involve providing high-technology services to other companies. Internationalisation has, in each case, arisen out of the success of the company in gaining work providing services to major companies and these companies have an international presence. Consequently the development path of the companies does not involve a strategic decision to internationalise; rather internationalisation has been forced upon the companies as a result of involvement with international companies.

Skills gaps do not appear particularly prevalent in either case in the technical areas. Here the concentration of high-technology business in the region may mean that an appropriately skilled labour market exists and is able to meet the needs of high-technology companies. Any gaps, which are not apparent, are more likely to involve management skills, the result of success and therefore growth of the company. Consequently the skills gaps are rarely specifically related to the internationalisation process. For example, language skills are not highlighted as an issue. The language of high-technology engineering or pharmaceuticals is frequently English, thus causing little difficulty for UK-based service companies. In any case, a major proportion of international work is US-based, with Europe currently less important.

6. Policy issues and recommendations

The analysis of the views collected from small firms in the services sector and the occasional identification of similarities or differences between such firms and small goods-producing firms, whose views were presented in the previous Cedefop survey, have important implications for policy designers and administrators of support schemes addressed to small firms.

In preceding sections of this report it was repeatedly argued that the experiences of internationalised small firms are more or less the same between goods-producing and services firms. The four most important success factors mentioned by owners of firms in the services sector draw attention to the basic skills and qualifications of entrepreneurs and employees:

(a) having foreign language abilities;
(b) being committed, confident and persistent;
(c) training existing staff;
(d) understanding cultural diversities.

Compared with goods-producing companies these success factors may be more important in services since services tend to be based on personal relationships, and thus on personal skills, and less on providing a well defined or even standardised product. Furthermore, services tend to be more complex in development and provision. Because of this complexity some entrepreneurs admit that they are considering changing their attitude towards the internationalisation process by outsourcing or completely discontinuing activities abroad.

An important result of this research is that internationalisation is not a sequential process prior to which the entrepreneur and staff follow a training programme that elaborates the necessary competences. Instead, it is competence development mainly on-the-job using networking as an important tool for learning about the competences needed and to experience the necessary competences. This is especially the case in the services sector. Compared with goods-producing companies, activities — and international activities in particular — in the services sector tend to be more dedicated and complex.

Of course this method of competence development poses a serious problem for training and support to small firms, since training and support agencies lack a clear path for analysis of skill needs within a typical process of internationalisation of a typical firm.

However, there are some general competences which support the key success factors and which could be highlighted during competence development. The most important of these competences are:

(a) foreign language skills;
(b) communication skills with foreign partners;
(c) negotiation skills in foreign environments.

These are general competences that are important for the development and maintenance of relationships with suitable contacts in foreign markets. The development of these relationships is also considered to be one of the main difficulties in the internationalisation process.

It may be concluded that, especially in services, internationalisation of small companies appears to follow a path of action learning, that is the internationalisation process is learned mainly on-the-job. Looking back, the internationalisation could be described as a specific 'development path' but, at the moment of passing, there is no awareness of this among many entrepreneurs and employees. This means that it is difficult to define firms' — and especially small firms' — needs for training for internationalisation. For training providers this means that it is not easy to discover the specific needs of a company in a typical situation. This, in turn, may lead to a situation where small firms find little effectiveness in programmes offered and they themselves attempt to develop the required skills and competences during the internationalisation process on-the-job. This is a dilemma that can only be solved through the experience of providers, allowing assessment of the situation and tailoring of training. Dialogue on all relevant aspects of skill needs and competences is essential to finding a solution to this dilemma.

Even though the fact that such dilemmas operate as constraints on the work of training policy decision-makers, in the area of training, as well as for other types of support services to small firms involved in international business, a very clear pattern of links has been established between competences and key success factors. This finding is common for both goods-producing and services small firms.

Through the views collected from the small firms surveyed it is possible to demonstrate the crucial role of competences such as:

(a) knowledge of foreign markets;
(b) foreign language skills;
(c) communication skills;
(d) negotiation skills in an international environment.

Small firms in all sectors show a consensus of preferences for support transfer mechanisms, which are based on an action-learning approach. For services firms this preference is even stronger. At the same time, services, despite the

recognition of their comparatively better performance in terms of employment generation and development of experts, still attract less attention from governmental services and centrally administrated support schemes. The sector is also shown to be less advanced in organisation of collective bodies and in lobbying for participation in various programmes. In this sense, recommendations concerning small firms in all sectors are even more relevant for those in the services sector.

Such recommendations may be addressed to intermediate agents, public or private sector services providers, national governments and even the European Commission, on how the above conclusions, together with the rest of the material and findings of the research undertaken, could be best transformed into specific actions (7).

There are a number of main directions for such action.

First, there are actions promoting awareness of environmental changes and technological developments. For internationalised small firms this would imply provision of easily accessible material on the situation in foreign markets (opportunities and constraints) linked with technical assistance on how best to utilise such information and make it an integral part of the small firm's strategic planning process. The choice of form in which the material could be best offered is also important.

The choice of information recipients is also crucial. Awareness campaigns should not be restricted to owners but should also be addressed to employees who, if sufficiently sensitivised, could operate, from within the firm, to promote the firm's and its owner's outward-looking philosophy.

Second, there are actions aimed at reducing the cost of training and of other support services. In more general terms, it is the cost/benefit relationship that matters most, although the evidence surveyed suggests that small firms are particularly sensitive to the cost element of training and other associated services. As far as the cost itself is concerned, this should be considered in its broad sense. Distance from the service that is being provided, *ex ante* or *ex post* internal and bureaucratic procedures are typical examples of cost items while decentralisation of training, training of local trainers, use of distant learning techniques are examples of cost-reducing measures. Tax treatment of training-related expenses is also of crucial importance in determining actual cost of training activities.

Third, there is a need for policy-makers to develop and implement initiatives which will help small companies to become proficient in the identification of skills shortages/deficiencies among managers and employees. This assistance may be provided through funding for external consultants to carry out formal skills

(7) This part of the report is largely based on Section 7 of the Cedefop survey *Synthesis report for goods-producing small firms*.

analyses within small firms or by facilitating the company to carry out its own skills identification process through, for example, the provision of training in skill-needs analysis.

It should be noted, however, that identification of skill shortages should not necessarily be followed by intensified personnel training or by hiring of new personnel possessing the required competencies. Instead the firm may decide to acquire the skills in question through outsourcing. Information collected during the various surveys confirmed that such a tendency is on the increase, especially for some skills such as administration of export-related paperwork, transport formalities, etc.

Fourth, there are actions specifically addressed to bridging the demand and supply sides of the training and other support services markets. Training and other support needs analyses (TSNA) are indispensable for establishing the real issues to be addressed. Such analyses should be best undertaken jointly by firms (or groups of firms) and by organisations whose task is the provision of such assistance to firms. Even better, the two sides should establish permanent links and devote resources for setting up a TSNA planning-implementation-monitoring/evaluation–adaptation and revised TSNA cycle.

Finally, there are actions which will increase small firms' access to European Union promoted schemes aimed directly or indirectly at facilitating their internationalisation. The Leonardo da Vinci (second phase) programme explicitly promotes, among others, upgrading of language competence and transnational networking, both among the top priorities identified systematically by various surveys, including this one. Other EU programmes such as ECIP (European Community Investment Partners — presently under reassessment by the European Commission's services) and the much publicised, and apparently quite successful, JEV (transnational joint ventures within the EU) programme offer opportunities, for example, to chambers of commerce, small firms' organisations, etc., to operate seminars on JEV co-financed by the European Commission.

In line with the above general directions, training services and technical support for small firms of various sectors could contain actions such as:

(a) improved statistics on small firms' trade performance — it is recommended that improvements be made in the collection and presentation of statistical information on the trade performance of the small firms sector. From a policy point of view it would be extremely useful to have regular information on the destination of exports from small and medium-sized companies, but also on the actual share of their turnover accounted for by exports. Such statistics would only be of limited usefulness unless they were provided on a regular basis and for comparable size classes for all countries;

(b) setting up reference libraries on foreign markets, organised by sector. Access to such libraries could be obtained in traditional form (physical access) or electronic (Internet or CD-ROM);
(c) group training on intercultural aspects of business;
(d) consultancy services on market information analysis and applications;
(e) workshops on small internationalised firms' best practices. Firms of different sizes, background or even nationality could participate, with experienced firms attempting to transfer their experience to recently internationalised or candidate small firms. Schemes such as Mentor (ing) seem quite appropriate in these cases. Equally useful would be for small companies to be assisted in implementing some sort of a 'benchmarking' process. Export-oriented small firms — individually or as groups — should contrast and compare themselves with the performance of competing companies abroad, identify practices and performance discrepancies and work towards achieving performance improvements;
(f) transnational personnel placements — transfer of know-how and/or experience could be effected by assisting small new exporters to place some key employee in another more experienced company with which it has business links. Such links are most probably going to be of a supplier — buyer type. Through such placements the employee of the small exporter will be able to observe in practice the peculiarities of the foreign market, the procedures for determining demand for its products, pricing policies, etc.;
(g) intensive foreign language courses, tailored to small firms. Such courses — and this applies also to courses in other key competences — could be organised and implemented with the use of advanced information technologies (CD-ROMs), interactive Internet, etc. Services providers should be aware of small firms' rigidities in adopting use of such tools not containing action learning elements. The introduction of such technologies should only be gradual and preferably accompanied by appropriate guidance.

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Internationalisation and changing skill needs in European small firms

The services sector

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This study provides answers to crucial questions on changing skill requirements of European small firms in the services sector which are in the course of internationalising their activities.

The series of surveys on which the study was based constitute a follow-up to another Cedefop study which focused on internationalised goods-producing small firms. Both studies were undertaken by an international experts' consortium and covered seven EU countries (Austria, Greece, Ireland, Italy, the Netherlands, Spain and the UK). Methodology employed combined desk research with analyses of specific cases of firms with varying degrees of internationalisation experience.

Having identified crucial shortages of specific types of skills, the study's recommendations are addressed to public and private providers of support to small firms, national governments and the European Commission. Policy-making favouring the type of firms examined in this study is particularly important, given that services is the only sector of the European economy that has generated jobs in the past two decades.

Joseph Hassid

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The services sector

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